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Candidate session number

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Examination session (May or November)

May

Year

2015

Diploma Programme subject in which this extended essay is registered: Economics

(For an extended essay in the area of languages, state the language and whether it is group 1 or group 2.)

Title of the extended essay: "What is the market structure of  
high-performance soccer cleat retailers in  
Hamilton, Canada?"

### Candidate's declaration

*This declaration must be signed by the candidate; otherwise a mark of zero will be issued.*

The extended essay I am submitting is my own work (apart from guidance allowed by the International Baccalaureate).

I have acknowledged each use of the words, graphics or ideas of another person, whether written, oral or visual.

I am aware that the word limit for all extended essays is 4000 words and that examiners are not required to read beyond this limit.

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Please comment, as appropriate, on the candidate's performance, the context in which the candidate undertook the research for the extended essay, any difficulties encountered and how these were overcome (see page 13 of the extended essay guide). The concluding interview (viva voce) may provide useful information. These comments can help the examiner award a level for criterion K (holistic judgment). Do not comment on any adverse personal circumstances that may have affected the candidate. If the amount of time spent with the candidate was zero, you must explain this, in particular how it was then possible to authenticate the essay as the candidate's own work. You may attach an additional sheet if there is insufficient space here.

Created what I think an Economic Analysis should be. He managed to focus on a very narrow topic. I was very impressed by the amount of primary data that he was able to generate for the essay. With very little guidance and focus <sup>from me</sup> he was able to find out some very useful information from which to draw conclusions for his question. He was able to combine his own primary data with secondary research to be able to create a very persuasive conclusion.

This declaration must be signed by the supervisor; otherwise a mark of zero will be issued.

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To the best of my knowledge, the extended essay is the authentic work of the candidate.

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I spent  hours with the candidate discussing the progress of the extended essay.

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Date: 28/02/15

# **Assessment form (for examiner use only)**

Candidate session number					
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## **Achievement level**

Criteria	Examiner 1	maximum	Examiner 2	maximum	Examiner 3
A research question	2	2		2	
B introduction	1	2		2	
C investigation	3	4		4	
D knowledge and understanding	3	4		4	
E reasoned argument	2	4		4	
F analysis and evaluation	2	4		4	
G use of subject language	3	4		4	
H conclusion	2	2		2	
I formal presentation	3	4		4	
J abstract	2	2		2	
K holistic judgment	3	4		4	
Total out of 36	26				

Name of examiner 1: \_\_\_\_\_ Examiner number: \_\_\_\_\_  
(CAPITAL letters)

Name of examiner 2: \_\_\_\_\_ Examiner number: \_\_\_\_\_  
(CAPITAL letters)

Name of examiner 3: \_\_\_\_\_ Examiner number: \_\_\_\_\_  
(CAPITAL letters)

IB Assessment Centre use only: B: \_\_\_\_\_

IB Assessment Centre use only: A: \_\_\_\_\_

“What is the market structure of high-performance soccer cleat retailers in Hamilton, Canada?”

IB Subject of Essay: *Economics*

Word Count: 3899

# HAMILTON SOCCER CLEAT RETAILER MARKET STRUCTURE

## Abstract

Soccer cleats are the main item of specialized equipment for soccer players and are purchased multiple times a year by high-performance players. There are many soccer teams in Hamilton and the surrounding area. Observation of the small number of retail locations prompted an inquiry to determine the degree of market power held by retailers. This led to the research question: **what is the market structure of high-performance soccer cleat retailers in Hamilton, Canada?** ✓

Literature on different market structures was consulted to provide a greater understanding of different Neo-Classical market structures. Data on the price and availability of 8 different cleats was collected from ten stores within a 50 km radius of Hamilton. Three owners and one store manager were interviewed to gain a deeper understanding of the economic decisions made by retailers. Additionally, 89 Hamilton soccer players completed a questionnaire that provided insights into consumer's buying behavior. Analyzing collected data concluded, that soccer cleat retailers in Hamilton are a monopolistically competitive market with oligopoly characteristics. The monopolistically competitive model is supported as retailers are constrained by manufacturers' suggested pricing and each retailer has a small share of the market. Characteristics of an oligopoly are found in the small number of retailers (10 in an area with a population of 750 000). ✓

It was concluded that individual retailers do not have a significant amount of market power and are unable to set prices. If the market structure were found to be an oligopoly, then soccer players in Hamilton would be paying more for cleats than they would in a competitive market. This would negatively impact consumers, and may have required regulatory intervention. The findings of this investigation indicate that customers are able to choose between retailers for reasons other than price, as retailers primarily compete with methods of non-price competition. ✓ ok

Word Count: 299

# HAMILTON SOCCER CLEAT RETAILER MARKET STRUCTURE

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## I. Introduction

Soccer is the beautiful game. Soccer shoes are the most important piece of equipment for a soccer player. In Canada, soccer players, call their footwear “soccer cleats” or just “cleats”. High-performance soccer players often spend hours looking at advertisements and reading about cleats. Soccer players shop for new cleats on average three times a year. However, cleats are almost always listed at the same price at different retailers. This raises a few questions: why do customers chose a particular retailer for the purchase their cleats? And how do retailers encourage customers to shop at their store? These questions have prompted the research question: **What is the market structure of high-performance soccer cleat retailers in Hamilton, Canada?**

## II. Methodology

The research question will be explored through a combination of both primary and secondary research. Primary research was conducted by visiting the selected retailers. The prices and selection of cleats available was recorded through observation. Soccer players on six Hamilton teams and the surrounding area were surveyed about their cleat purchasing habits. Interviews with three retail store owners and one retail store manager were conducted as well. The market structure is fully explored as both the customers and retailers are considered. Secondary research was conducted in the form of researching internet articles related to retailers and their cleat prices as well as articles related to the Theory of the Firm. A deeper understanding of the Theory of the Firm was also achieved through reading textbooks.

### a. Selecting Retailers

The retailers selected are within Hamilton and the surrounding area. Hamilton is a fairly large city with a metropolitan population of over 750,000 citizens.<sup>1</sup> Toronto is Canada’s largest metropolis and is only 70 kilometers away. In order to have the focus on soccer retailers in and

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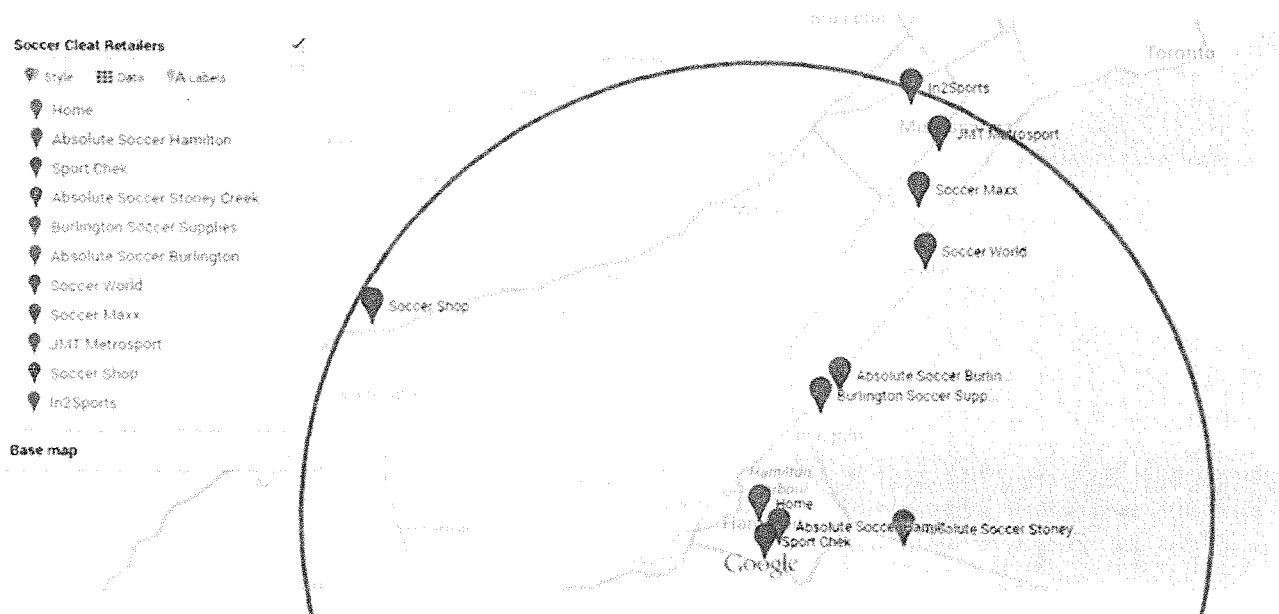
<sup>1</sup> Population of census metropolitan areas. (2014, May 30). Statistics Canada. Retrieved October 2, 2014, from <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/demo05a-eng.htm>

## HAMILTON SOCCER CLEAT RETAILER MARKET STRUCTURE

around Hamilton the radius should avoid major markets such as Toronto. After careful consideration, a radius of 50 kilometers from downtown Hamilton was chosen to be the area of focus (illustrated by the blue circle in Figure 1). In the chosen area, ten soccer cleat retailers were found. There were five Sport Chek stores in the area (the largest sporting goods retailer in Canada),<sup>2</sup> but only one carried any of the selected cleats (see II b. Selecting Cleats). The remaining four Sport Chek stores did not carry any high performance cleats and hence are excluded from this essay. For the purposes of this essay, only the retailer's selected high performance soccer cleats will be considered, disregarding all other merchandise. All prices are in Canadian Dollars and do not include tax. Graphs and charts are listed in order of proximity from downtown Hamilton.

Note: the blue circle in Figure 1 is intentionally cut off below as there are no retailers within the selected radius in the southerly direction.

**Figure 1: Selected Retailers<sup>3</sup>**



<sup>2</sup> About Us. (n.d.). Retrieved November 10, 2014, from <http://www.sportchek.ca/store/index.jsp?categoryId=3796357>

<sup>3</sup> Map courtesy of Google Maps Engine



## HAMILTON SOCCER CLEAT RETAILER MARKET STRUCTURE

### b. Selecting Cleats

As there are dozens of different soccer cleats available on the market, the selection of soccer cleats had to be narrowed down. Soccer cleats, even of the very same design, come in multiple performance levels. Basic quality soccer cleats start at \$70, intermediate quality cleats start at \$120, while high-performance quality cleats start at \$200.<sup>4</sup> High-performance cleats have been chosen as the focus. Four of the most popular brands of soccer cleats in North America are: Adidas, Nike, Puma, and Umbro. In the interest of demonstrating each retailer's selection of cleats, two cleats from each of the four brands were chosen (Figure 2).

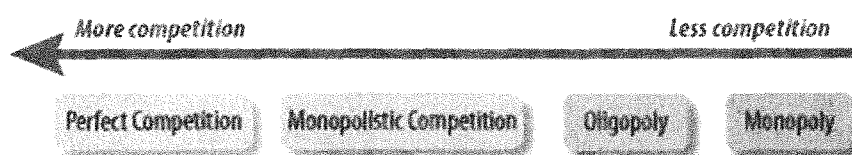
**Figure 2: Selected Cleats**

Brand	Adidas		Nike		Puma		Umbro	
Design	F50	Predator	Tiempo	Mercurial	evoPower	evoSpeed	Speciali	Geometra

### III. Theory

In Neo-classical economic theory, there are considered to be four main market structures: perfect competition, monopolistic competition, oligopoly and monopoly. The spectrum of the four structures is illustrated in Figure 3.

**Figure 3: Market Structure Spectrum<sup>5</sup>**



Three of the ten selected retailers are owned by the same company, Absolute Soccer. Thirty percent of the retailers being owned by the same company could possibly point to an oligopoly. However, a monopoly requires one firm to maintain complete control of a market. Since Absolute Soccer does not control the market, a monopoly can be ruled out as the market

<sup>4</sup> Soft Ground Soccer Shoes. (n.d.). Retrieved November 10, 2014, from <http://www.soccer.com/store/footwear/soft-ground-shoes/>

<sup>5</sup> Competition and market structures. (n.d.). *Economics Online*. Retrieved July 30, 2014, from [http://www.economicsonline.co.uk/business\\_economics/competition\\_and\\_market\\_structures.html](http://www.economicsonline.co.uk/business_economics/competition_and_market_structures.html)

## HAMILTON SOCCER CLEAT RETAILER MARKET STRUCTURE

structure of soccer cleat retailers. ~~Perfect competition~~<sup>6</sup>, monopolistic competition and oligopoly are all possibilities and will be further explored.

### a. Perfect Competition

The Neo-classical model of perfect competition assumes the following criteria:<sup>6</sup>

1. There are many small retailers.
2. There are no barriers to entry or exit from the industry.
3. Firms can only make normal profits in the long run. **Normal profit** means no economic profit is made by the firm. "Only normal profit could be earned in such markets because, if profit was abnormally high, more competitors would appear and drive prices and profit down".<sup>7</sup>
4. The product is homogeneous (cannot be differentiated).
5. Both buyers and sellers have perfect information about prices, technology, and what other firms are doing.
6. Firms are price takers. A price taker does not control enough of the industry to influence the price of the product, but instead must accept the equilibrium price set by the industry.
7. There is perfect resource mobility.

### b. Monopolistic competition

Monopolistic competition is similar to perfect competition; however there are a few key differences as well<sup>8</sup>:

1. There are many small firms.
2. There are no barriers to entry or exit from the industry.
3. There is product differentiation. The differentiated product provides the firm a small amount of monopoly power, allowing the firm to make supernormal profits or subnormal profits in the short term. **Supernormal profit** surpasses the level of normal profit, as a

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<sup>6</sup> McBride, B. (2012). Market Structure 1 - Perfect Competition. *Economics for Canadians* (p. 104). Westmeath: Croecko Publishing.

<sup>7</sup> Normal Profit. (n.d.). *Business Dictionary*. Retrieved August 2, 2014, from <http://www.businessdictionary.com/definition/normal-profit.html>

<sup>8</sup> McBride, B. (2012). Market Structure 3 - Monopolistic Competition. *Economics for Canadians* (p. 116). Westmeath: Croecko Publishing.


## HAMILTON SOCCER CLEAT RETAILER MARKET STRUCTURE

result of average revenue being greater than average total costs allowing the firm to make a profit. Conversely, **subnormal profit** is less than normal profit, resulting from average revenue being less than average total cost, causing the firm to lose profit.

4. Firms compete on non-price competition. Non-price competition includes advertising, quality of service, and branding.
5. Firms can only make normal profits in the long run.

### c. Oligopoly

The last market structure that will be analyzed is an oligopoly. The main features of an oligopoly are:<sup>9</sup>

1. There are only a few large firms in the industry.
  2. There are significant barriers to entry.
  3. Products are similar, but can be differentiated.
  4. There is mutual interdependence, meaning that the decisions of one firm affect the other firms in the industry.
  5. Firms rely heavily on non-price competition in order to avoid price wars.
  6. Firms are able to make supernormal or subnormal profits in the long run.
- 

## IV. Analysis

One of the key differences when comparing perfect competition with monopolistic competition and an oligopoly is whether the firms compete primarily on price or non-price competition. Firms in perfect competition have homogenous products so they compete on price,\*whereas firms in monopolistic competition and oligopolies do not compete on price.

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<sup>9</sup> McBride, B. (2012). Market Structure 4 - Oligopoly. *Economics for Canadians* (p. 118). Westmeath: Croecko Publishing.

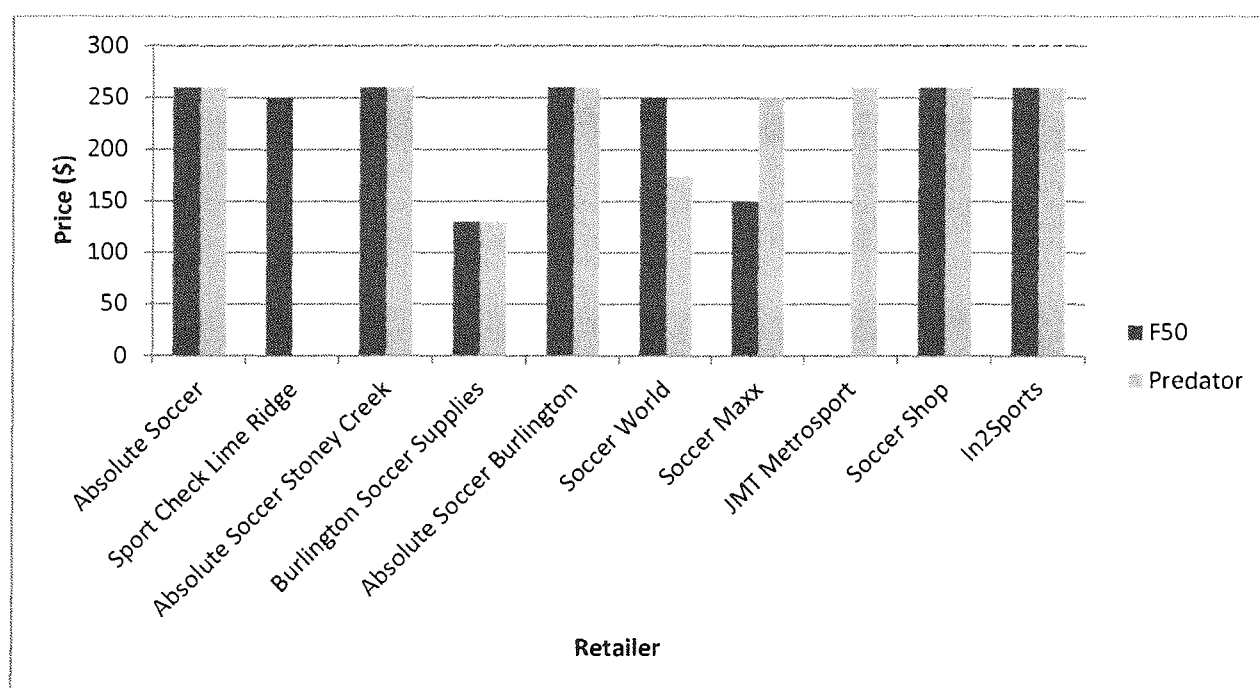
## HAMILTON SOCCER CLEAT RETAILER MARKET STRUCTURE

### a. Pricing of Cleats

The four following bar graphs compare the price of cleats from the ten retailers. The pricing of both cleats from each brand are displayed on the same graph, as it has been observed that the cleats from the same brand often display similar trends of availability and pricing. Generally, if a retailer carries one of a brand's cleats it will also carry the other cleat from the same brand.

The lack of a bar on a graph indicates that the retailer does not carry the selected cleat.

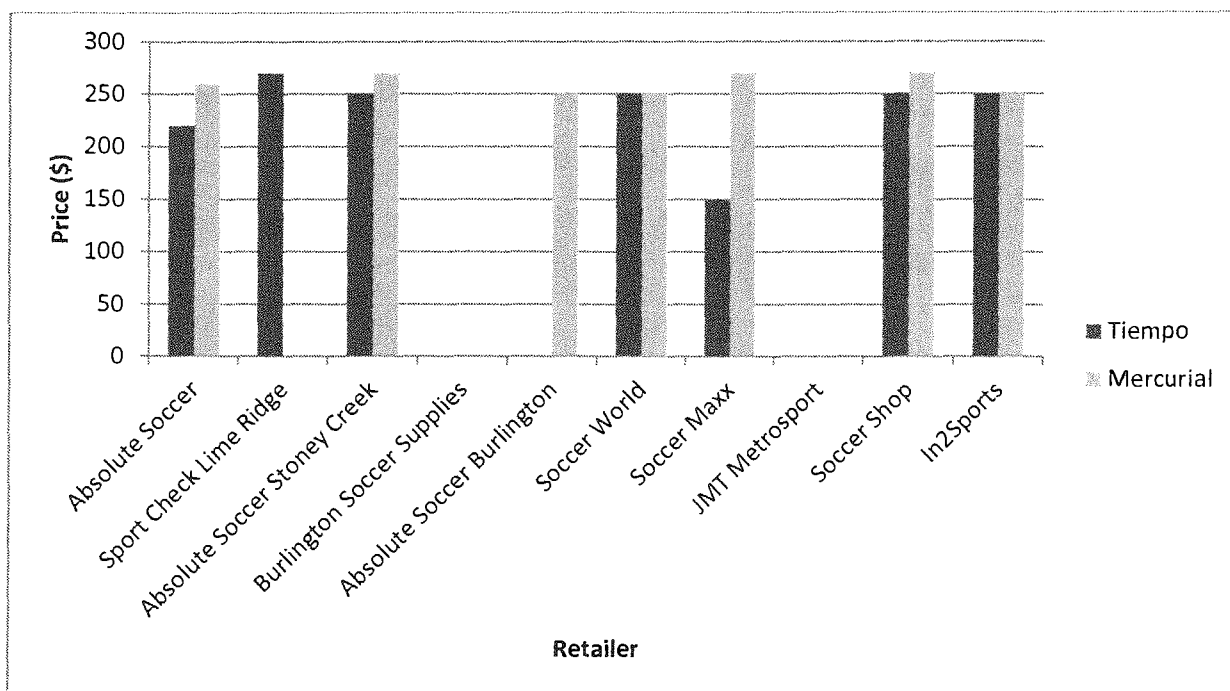
**Figure 4: Adidas F50 and Predator Pricing**



Most of the retailers sell each of the Adidas cleats for \$260, while three of the retailers list the cleats for up to 50% less than the normal retail price. At the time of the data collection in September, it was nearing the end of the Canadian outdoor soccer season. Burlington Soccer Supplies had both cleats listed at 50% off the normal retail price as they were clearing out their outdoor soccer cleats in order to make way for their incoming indoor cleats. Soccer World's Predator and Soccer Maxx's F50 were both listed at a lower price because they were the previous year's model.

## HAMILTON SOCCER CLEAT RETAILER MARKET STRUCTURE

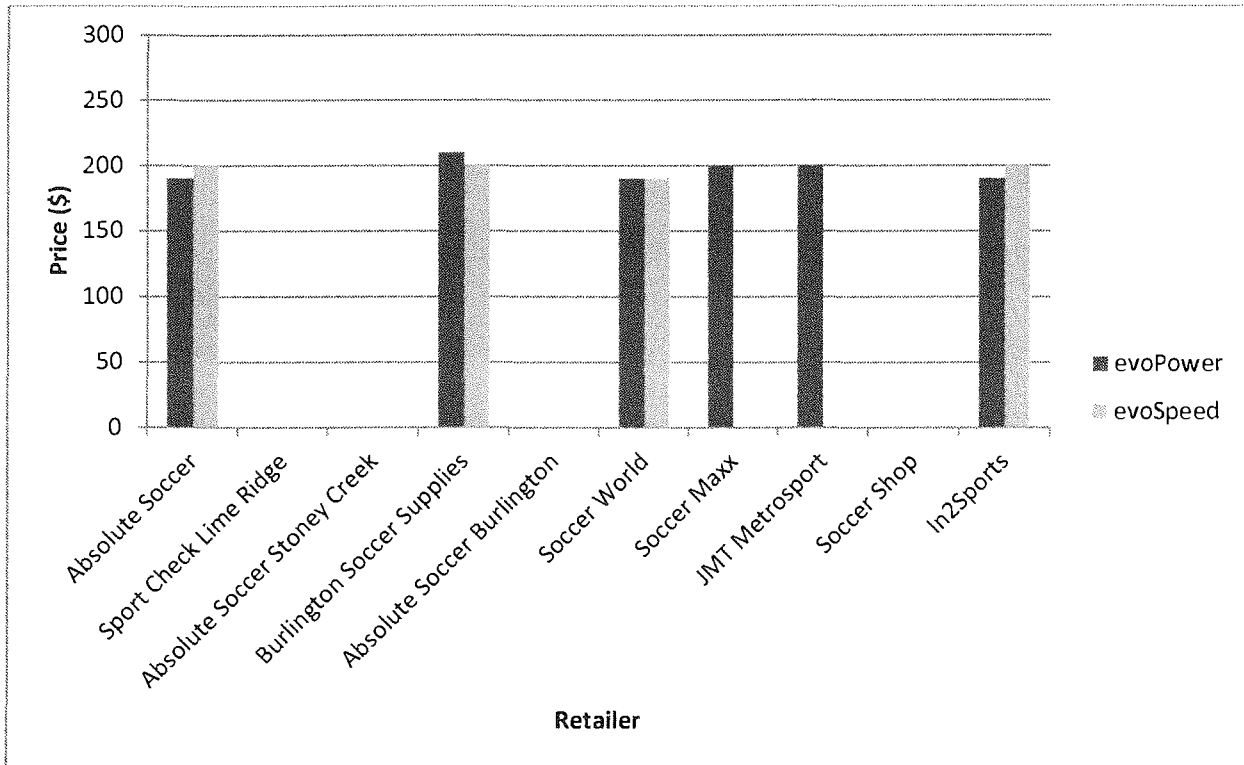
**Figure 5: Nike Tiempo and Mercurial Pricing**



The variance of the Mercurials is \$20 between the retailers. The Tiempos have a variance of \$120, as the highest listed price is \$270 while the lowest price is \$150. The Tiempos from Soccer Maxx are \$120 as they are the last cleat available at the retailer and are size 11. The Tiempos from Sport Chek (\$270) are one of only two cleats the retailer carries of the selected cleats, and hence, they may not realize their Tiempos are listed above the market value.

## HAMILTON SOCCER CLEAT RETAILER MARKET STRUCTURE

**Figure 6: Puma evoPower and evoSpeed Pricing**

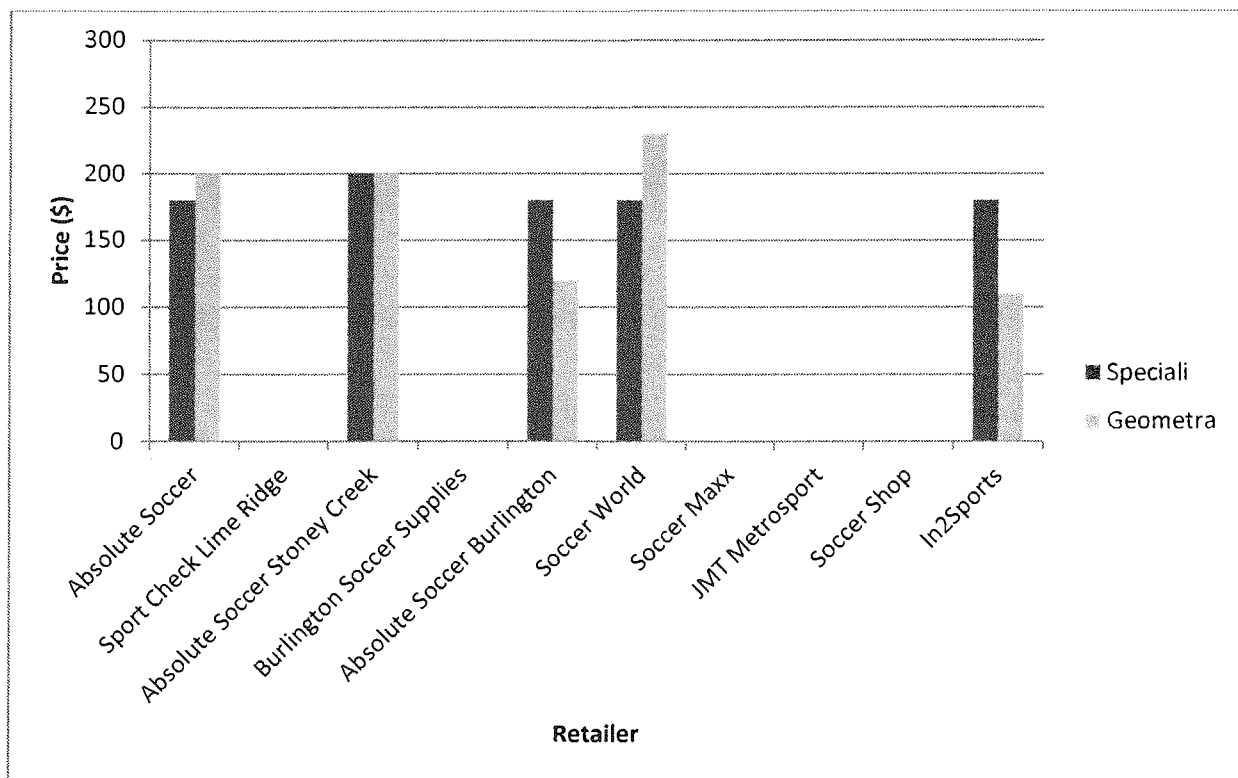


Six of the ten retailers carried the evoPower, and only four of the ten retailers carried the evoSpeed. The evoPower has only a \$20 difference between the highest and lowest retailed price. The evoSpeed has an even smaller variance of \$10 between the retailers as the cleats.



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**Figure 7: Umbro Speciali and Geometra Pricing**



The Umbro cleat selection is the clearest example of a retailer carrying both or neither of the cleats from a brand. Only half of the retailers carry the Umbro cleats, however, all five of the retailers that carry Umbro cleats carry both models. The Specialis have a price variance of \$20, whereas the Geometras have a \$110 variance. Soccer World is retailing their Geometra cleats for \$230 as they have the newest model that had just been released. Two retailers had their Geometra cleats listed at a lower price because Absolute Soccer Burlington had last year's model and In2Sports only had one last remaining pair in a size 12.

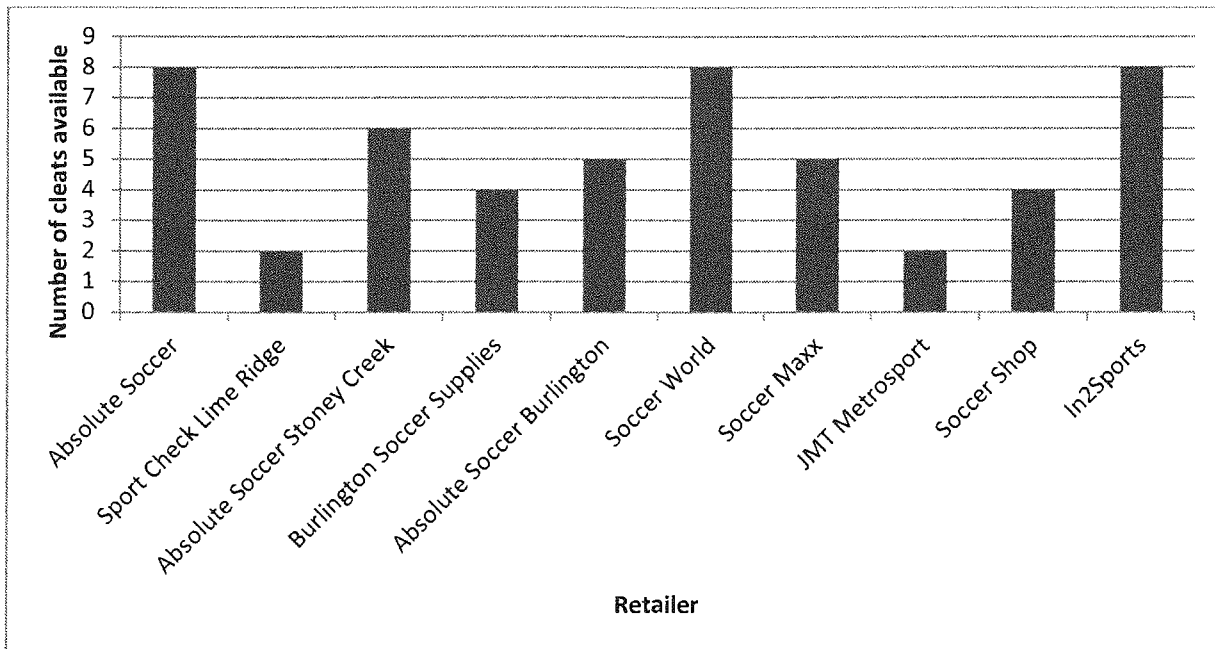
Overall, the retailers listed their cleats for approximately the same price as demonstrated by the minimal price variances between the retailers. When a pair of cleats was listed below the market equilibrium value it was for one of the following reasons: it was a previous year's model, it was on sale, or it was the last size of the particular cleat. Therefore, it is suggestive that the soccer cleat retailers are not primarily competing on price, a vital component of perfect competition. How retailers compete using non-price competition will now be further explored.

## HAMILTON SOCCER CLEAT RETAILER MARKET STRUCTURE

### b. Availability of Cleat Selection

As previously illustrated, many of the retailers did not carry all the cleats. Cleat selection is a way retailers can attract customers without the use of prices. The customer survey (Appendix III) indicates that cleat selection is an important factor of non-price competition. The following chart shows the number of cleat models available at each store out of the possible eight cleats selected.

**Figure 8: Number of Cleats Available at Each Retailer**



Only three out of the ten retailers carry all eight of the selected cleats, while two of the retailers only carry two. Clearly some retailers are more competitive at this aspect of non-price competition than others. ➔

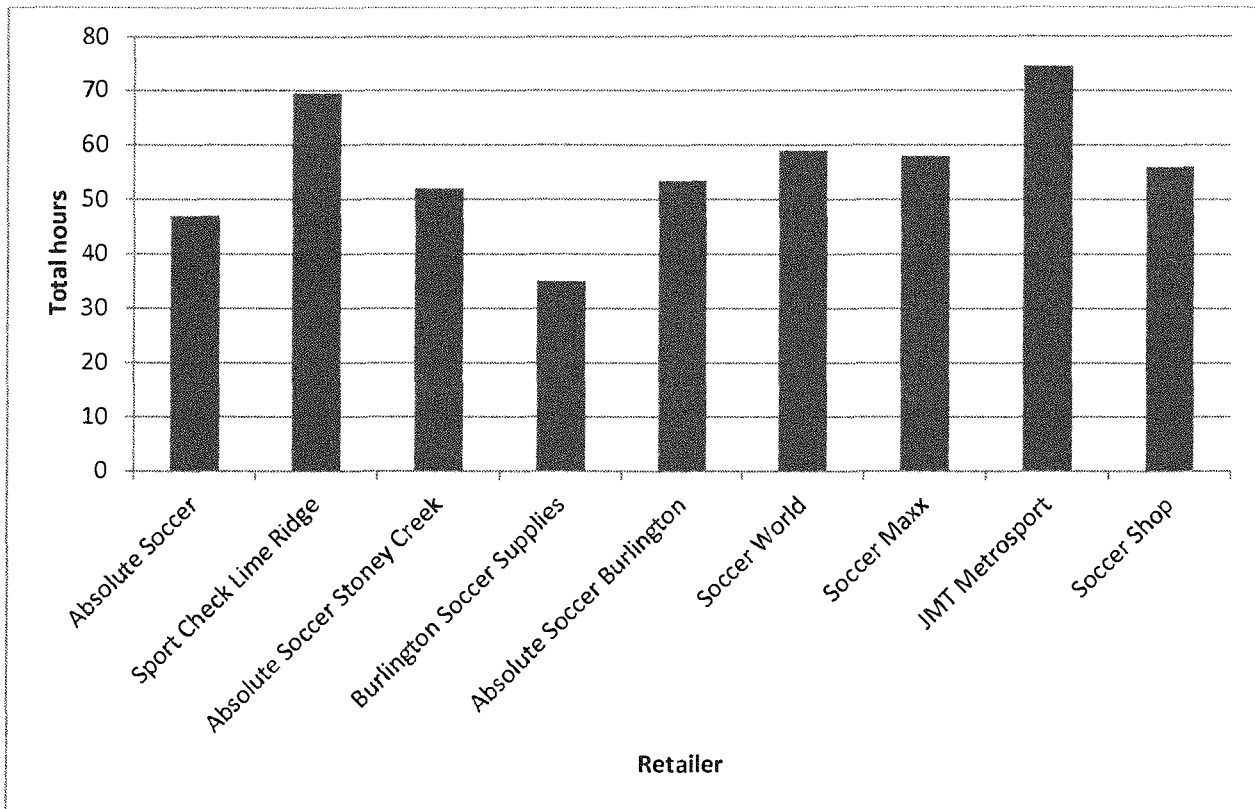
### c. Hours of Operation

Another attribute of non-price competition is the number of hours a retailer is open. The hours of operation for each day of the week was recorded and compiled to display the total number of hours the store was open weekly. For the specific hours see Appendix II.



## HAMILTON SOCCER CLEAT RETAILER MARKET STRUCTURE

**Figure 9: Number of Hours Retailers are Open a Week**

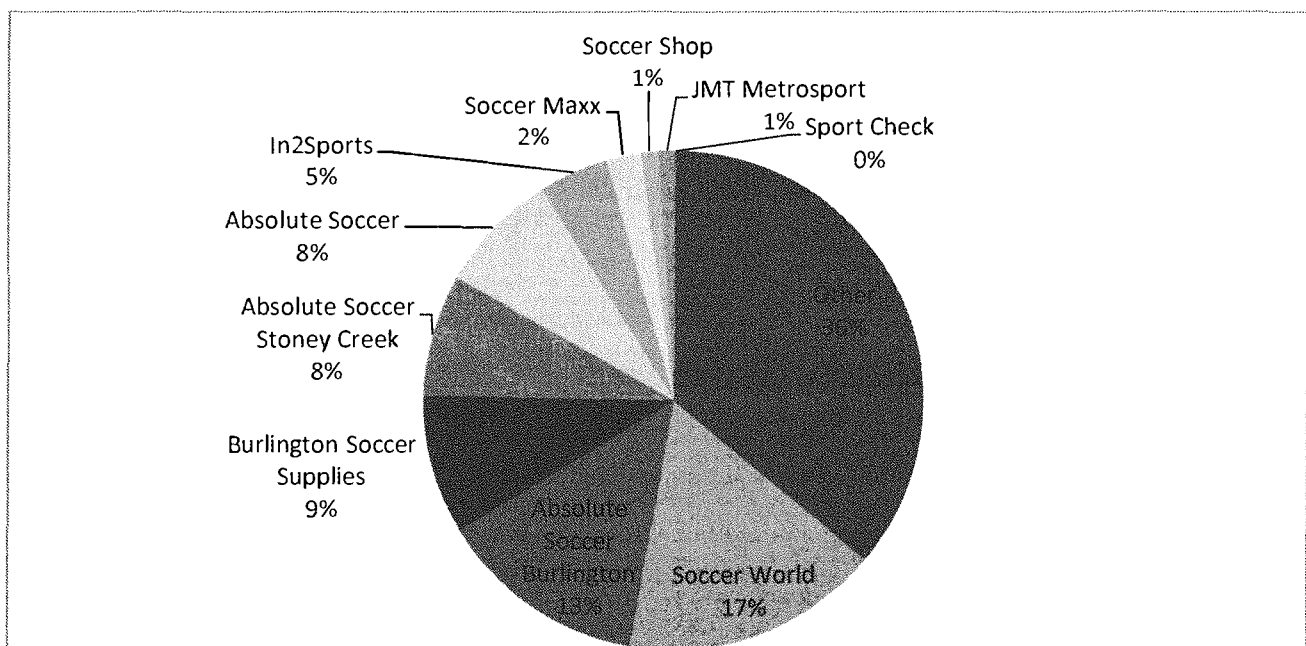


Some retailers are more conducive to customer visits such as JMT Metrosport (open 74.5 hours per week) and Sport Chek Lime Ridge (69.5 hours). Others are open for fewer hours such as Burlington Soccer Supplies (35 hours) and Absolute Soccer (47 hours). Interestingly, even though JMT Metrosport and Sport Chek are open for the greatest number of hours, they have the smallest selection of cleats available (two each). Absolute Soccer in turn has all eight of the cleats in stock. Burlington Soccer Supplies only had four of the selected cleats; however, it was only because they were clearing out their outdoor cleats to make room for their incoming indoor cleats. The owner assured me during the outdoor season they have a much greater selection. This suggests a general trend that the fewer hours a retailer is open the greater selection of cleats the retailer will carry. It can also be noted that JMT Metrosport and Sport Chek are both larger stores, whereas Burlington Soccer Supplies and Absolute Soccer are smaller soccer specific retailers.

## d. Customer Survey

Players shopping for high-performance cleats are often young adults who play for high calibre teams. As such, the survey consists of 89 players on six high-performance soccer teams from Hamilton and the surrounding area. The teams consist of a U16 male, U18 female, one open age female and three open age male teams. Each player was given a short five question survey (Appendix III) to see what their thoughts regarding soccer retailers. The following figures show the responses to the survey questions.

**Figure 10: When shopping for soccer cleats, which retailer do you shop at most often?**

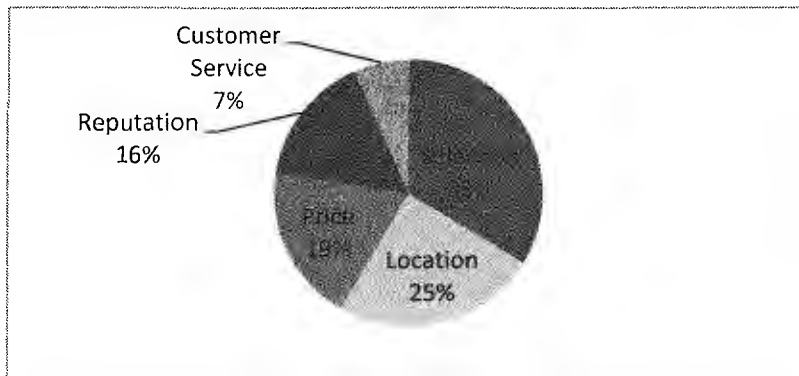


Soccer World enjoys the greatest market share (17%) as an individual retail store; however, the combined market share of Absolute Soccer, between its three stores, is 29%. Even though the selection of retailers chosen in this essay consists of all ten retailers within 50 km of Hamilton, 36% of the players from Hamilton purchase their cleats elsewhere. When asked where they purchased their cleats 24% purchase their cleats from retailers outside of the 50 km radius, while 12% purchase their cleats online. Online retailers have not been included as the aim of this essay is to study the soccer cleat retailers physically located in and around Hamilton. However, it is worth noting that the online retailers have a significant effect on the Hamilton cleat market.

## HAMILTON SOCCER CLEAT RETAILER MARKET STRUCTURE

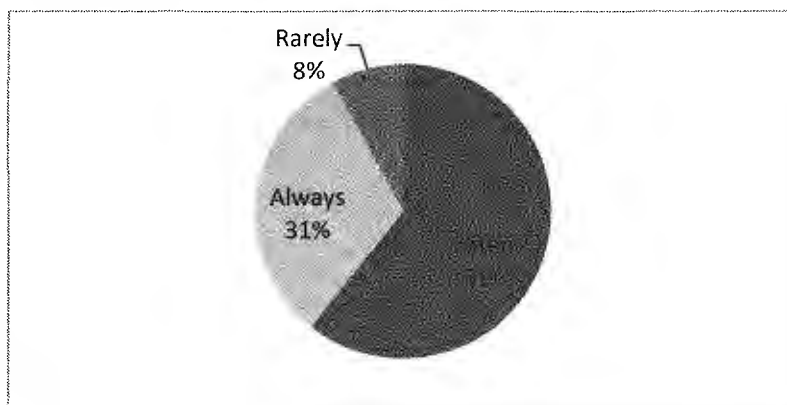
Cleat prices are available online which may establish the market equilibrium price for cleats, allowing consumers to have greater knowledge of cleat prices. Availability of cleat prices also establishes a clearer consumer surplus value. If a customer purchases the same cleats at a retailer for a lower price than the customer is willing to pay online, the customer is said to enjoy consumer surplus.

**Figure 11: Which of the following do you find most important?**



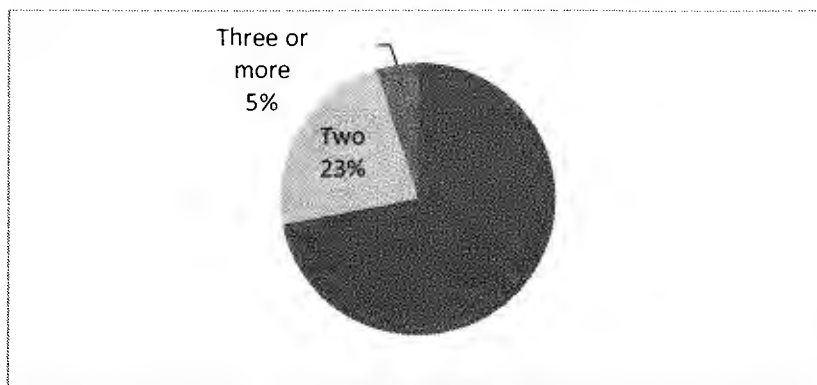
According to customers, customer service and store reputation are not nearly as important as cleat selection, location, or price. Price is ranked third, further supporting that the retailers do not compete primarily on price.

**Figure 12: Do you always purchase your cleats at the same retailer?**



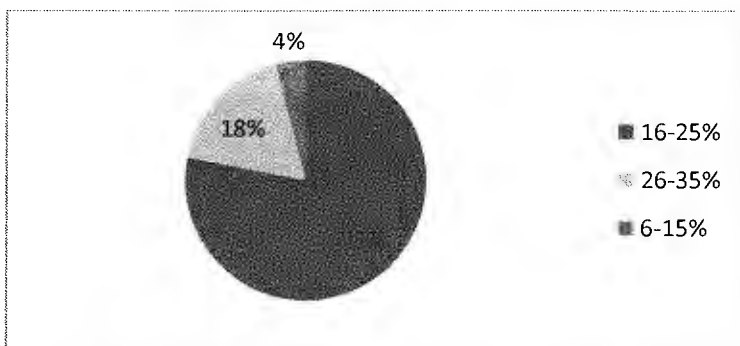
31% of customers always shop at the same retailer, while 61% often shop at the same retailer; this suggests that customer loyalty is high. It is important for retailers to offer customers a good selection at good prices as this will lead to customer loyalty, which is evident to this market.

**Figure 13: How many retailers do you visit before purchasing a pair of cleats?**



72% of customers visit only one shop before purchasing cleats, this also reinforces the high customer loyalty of the market.

**Figure 14: What is the minimum price drop a retailer would have to undergo to switch from your usual retailer of choice?**



*valuable?*

78% of customers would only switch from their usual retailer if a different retailer drops their prices by 26-35%. Cross price elasticity of demand (XED) is the “percentage change in the quantity demanded of a given product due to the percentage change in the price of another “related” product”.<sup>10</sup> The data suggests quite a low XED for the cleat market. ?

Overall, the survey answers point to the market structure of the soccer cleat retailers being either monopolistic competition or an oligopoly. The customers rank price as only the third most important factor when considering a retailer, valuing non-price factors such as cleat selection and location above price. Customers often repeatedly visit the same retailer to purchase their cleats

<sup>10</sup> OECD Glossary of Statistical Terms - Cross price elasticity of demand Definition. (2002, January 2). Retrieved November 21, 2014, from <http://stats.oecd.org/glossary/detail.asp?ID=3185>

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and 78% would only switch retailers if the price of a different retailer dropped by 16-25%. This demonstrates high customer loyalty to the retailers. Perfect competition can now be ruled out as the market structure as firms would have to compete chiefly on price, whereas the survey shows that this is not the case in this market. As can be seen non-price competition is very evident in this market which is characteristic of firms in monopolistic competition and oligopolies. ✓!

### e. Retailer Interviews

Three retail owners were interviewed; Mr. Giannini (Absolute Soccer), Mr. Bonanno (Soccer Maxx), and Mr. Grant (Burlington Soccer Supplies), as well as a retail manager, Mr. Maia (Soccer World).

Ms. Giannini and Mr. Bonanno both agreed that customer loyalty were major factors of their businesses as they each own relatively small stores. They both believe customer service is of utmost importance in creating a friendly and personal atmosphere for their customers. However, only 7% of customers in the survey considered customer service to be the most important factor. Mr. Maia considers physical appearance of the store along with a large variety of the latest cleats very important. To emphasize the importance Soccer World's very slogan is "where service and selection can't be beat". Customer service along with physical differences are both ways retailers can utilize product differentiation, a key component of monopolistic competition and oligopolistic markets.

When asked about how they set the prices for their cleats all the retailers stated that they initially set their prices according to the MSRP (manufacturer's suggested retail price). Mr. Grant said that when a cleat is retailed below the MSRP it is because; the cleat is on sale, the cleat is an older model, or the cleat is the last remaining size of that model. ✓

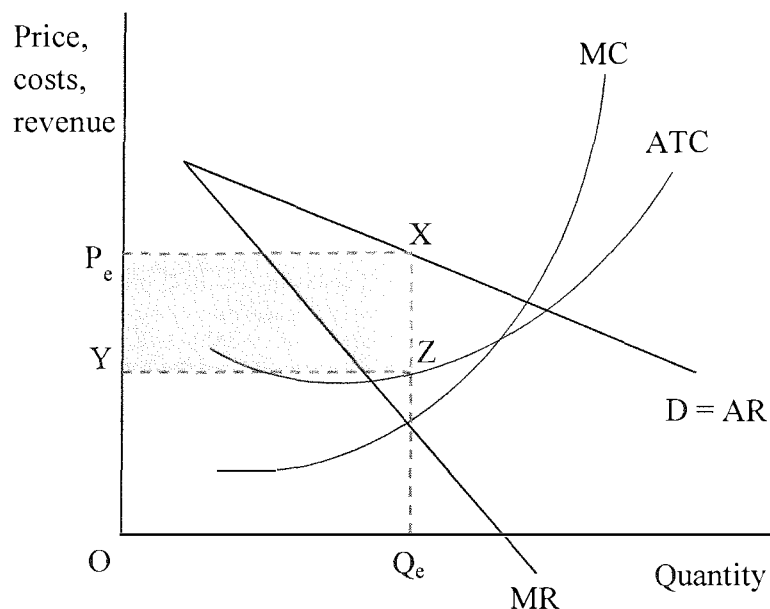
The cleat manufacturers can be considered price makers as they function in an oligopolistic market. However, determining if cleat retailers are price makers or takers is more difficult. ?  
Cleat retailers are partially price takers as they follow the MSRP set by the cleat manufactures and consequently expected by the consumers. ✓ However, as there is product differentiation, the retailers are able to control a limited amount of monopoly power and as such have a limited

## HAMILTON SOCCER CLEAT RETAILER MARKET STRUCTURE

ability to be a price maker. Nevertheless, Mr. Grant said “when we change the price it is always a price decrease”. The situation is such that the retailers can be both price takers and price makers.

Seeing as the prices are set by the cleat manufactures a non-collusive oligopoly can be ruled out. The closest oligopolistic model would be a type of collusive oligopoly known as price leadership. Even though there is not a “price leader” among the retailers, the cleat manufactures suggest a price in such a way that all the retailers follow the MSRP, as firms would follow a price leader. It seems the profit maximisation of monopolistic competition graph, extremely similar to the graph used to model collusive oligopolies, can best be used to illustrate the cleat retailers. The main difference between the graphs of the two models is that the monopolistic competition's AR and MR curves are less steep than that of a collusive oligopoly, as the elasticity of demand for monopolistic competitive firms is less. *endemi*

**Figure 16: Economic profit earned in the short run by soccer cleat retailers**



Generally, firms are able to earn supernormal profits in the short run as can be seen in Figure 16. Firms maximize profits at the point where MR equals MC, illustrated by the intersection of the

## HAMILTON SOCCER CLEAT RETAILER MARKET STRUCTURE

MR and MC curves. The total revenue earned by the firm is illustrated by the rectangle  $P_e X Q_e O$ , when the firm sells quantity  $Q_e$  at the price  $P_e$ . Firms earn normal profit up until the point below the ATC curve, illustrated by the rectangle  $YZ Q_e O$ . As long as  $P_e$  is greater than ATC at  $Q_e$  a firm earns supernormal profit. Hence, the blue shaded rectangle ( $P_e X Z Y$ ) is the supernormal profit a firm is able to earn in the short run.<sup>11</sup>

However, in the long run firms in monopolistic competition are only able to earn normal profits. If firms are making supernormal profits new firms will readily join the market, because of the low barriers to entry. This would decrease the supernormal profits the original firms were earning, until they become normal profits. Hence, firms in monopolistic competition constantly try to remain in the short run. As the majority of the cleat retailers are small they can remain in the short run by the owner or the manager actively increasing their product differentiation. Conversely, oligopolistic firms can earn supernormal profits in the long run, as there are high barriers to entry, in addition to product differentiation.

Barriers to entry are a major difference between monopolistically competitive and oligopolistic markets. Barriers to entry allow firms to earn more than normal profit. Barriers to entry include economies of scale, branding, and legal barriers.<sup>12</sup> “Economies of scale” does not apply to the cleat market as all the retailers are small, and the cost of their retail store is minimal (compared with the start-up cost of an airline). The legal barriers associated with opening a cleat retail store are negligible as well. The main barrier to entry to this market is branding and creating a good reputation. Mr. Bonanno considers his store to be new even though it has been open for five years. Although his store’s returning customer base is gradually growing, he feels a majority of his customers are new. In a market where customer loyalty is high this may suggest that his store is still suffering from the “branding” barrier to entry.

Another crucial factor that sets apart oligopolistic and monopolistically competitive markets is the number and size of firms. The number of firms in the market is small (ten retailers) which is

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<sup>11</sup> Hardy, C. (1978). Monopolistic Competition. In *The investor's guide to technical analysis* (p. 310). New York: McGraw-Hill.

<sup>12</sup> Tragakes, E. (2012). *Economics for the IB Diploma* (Second ed.). Cambridge: Cambridge University Press.

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characteristic of oligopolistic market, however, the size of the firms is relatively small, which is a feature of monopolistically competitive markets.

As can be seen, the cleat retail market seems to embody features of both monopolistic competition and oligopolies.

### V. Conclusion

Owing to the simplicity of models, my research question “What is the market structure of soccer cleat retailers in Hamilton, Canada?” cannot be defined by one finite market structure. The market structure of a monopoly was ruled out from the start as no one retailer controlled enough of the market. Perfect competition was ruled out as well as the retailers have product differentiation and primarily compete on non-price competition. That leaves two possible market structures: monopolistic competition and oligopoly.

The main barrier to entry is a retailer’s reputation along with that customer loyalty that coincides with it. However, as there are no economies of scale to contend with and negligible legal barriers, the barriers to entry can be considered minimal. In addition to minimal barriers to entry, the small size of the retailers is also characteristic of monopolistic competition. Conversely, the relatively small number of firms in the market is indicative of an oligopoly.

To reiterate, the retailers compete primarily on non-price competition such as product differentiation and customer service. The market does not have perfect knowledge of prices and customers will not switch from their usual retailer readily, as a result of high customer loyalty. The firms are able to make supernormal profit in the short run and it seems the retailers may also be price makers. All these attributes are characteristics of both monopolistic competition as well as oligopolies. Therefore, it seems the market structure of soccer cleat retailers is a combination of both monopolistic competition and oligopoly. However, as the monopolistically competitive aspects of the market slightly outweigh the oligopolistic features, the market can be considered monopolistically competitive with oligopolistic features. This is also supported by the fact that in reality most small businesses such as soccer cleat retailers function as part of a monopolistically competitive market.



### **VI. Evaluation**

Only three retail owners and one manager was willing to be interviewed which limits the certainty of the answers. Additionally, the retail owners and managers may be biased in their answers in order to present a better appearance of their store and how it is run than it is in reality, which would affect the accuracy of the interviews and hence essay.

The customers that were interviewed were all players; perhaps the parents of some of the younger players could have provided more accurate answers to the survey and should have been interviewed instead or in addition to the players.

The essay was focused on economic theory; however, competition law regarding small businesses in Ontario and manufacture-retailer agreements could have been studied to illustrate the limitations of collusive and non-collusive oligopolies that retailers must act in accordance to.

One major factor that was briefly mentioned earlier is the effect online retailers have on physical retailers. It would be interesting to further explore the effect of the increasingly digital age, and how the online retailers are and will continue to effect physical retailers.

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## Appendices

### Appendix I

Cleat prices at selected retailers

	Absolute Soccer	Absolute Soccer Stoney Creek	Absolute Soccer Burlington	Burlington Soccer Supplies	Soccer World	In2Sports	JMT Metrosport	Sport Check	Soccer Maxx	Soccer Store
F50	260	260	260	125	250	260		250	150	260
Predator	260	260	260	130	175	260	260		250	260
Tiempo	220	250			250	250		270	150	250
Mercurial	260	270	250		250	250			270	270
evoPower	190			210	190	190	200		200	
evoSpeed	200			200	190	200				
Speciali	180	200	180		180	180				
Geometra	200	200	120		230	110				

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## Appendix II

### Store Hours

	Absolute Soccer	Absolute Soccer Stoney Creek	Absolute Soccer Burlington	Burlington Soccer Supplies	Soccer World	In2Sports	JMT MetroSport	Sport Check	Soccer Maxx	Soccer Store
Hours of Operation	Mon. - Fri. (10 am - 6 pm)  Sat. (10 am - 5 pm)  Sun. (Closed)	Mon. - Fri. (11 am - 7 pm)  Sat. (10 am - 5 pm)  Sun. (11 am - 4 pm)	Mon. - Thurs. (10:30 am - 7 pm)  Fri. (10:30 am - 6 pm)  Sat. (10 am - 5 pm)  Sun. (11 am - 4 pm)	Mon - Fri: 12am - 6:00pm  Sat: 10:00am - 5:00pm	Mon - Fri 11am - 8pm  Sat 10am - 6pm  Sun 12pm - 6pm	Mon - Fri: 10am - 9pm  Sat: 10am - 6pm  Sun: 12pm - 5pm	Mon to Fri: 10 am - 9 pm  Sat: 9:30 am - 9 pm  Sun: 11 am - 7 pm	Mon-Fri 10 am - 9 pm  Sat 9:30 am - 6:00 pm  Sun 11 am - 5 pm	Monday - Friday: 11:00 am - 8:00 pm  Saturday: 10:00 am - 6:00 pm  Sunday: 12 pm - 5:00 pm	Mon-wed: 10am-6pm  Thurs-fri: 10am-8pm  Sat: 10am-6pm  Sun: 10am-2pm
Total hours	47	52	53.5	35	59	68	74.5	69.5	58	56

### Appendix III

#### Customer Survey

#### Integrated Questions and Answers

1. When shopping for soccer cleats, which retailer do you shop at most often?

<b>Retailer</b>	Other	Soccer World	Absolute Soccer Burlington	Burlington Soccer Supplies	Absolute Soccer Stoney Creek	Absolute Soccer	In2Sports	Soccer Maxx	Soccer Store	JMT Metro sport	Sport Check
<b>Tally</b>	32	15	12	8	7	7	4	2	1	1	0
<b>Percent (%)</b>	36	17	13	9	8	8	4	2	1	1	0

2. Which of the following do you consider most important?

<b>Criterion</b>	<b>Tally</b>	<b>Percent (%)</b>
Selection	30	34
Location	22	25
Price	17	19
Reputation	14	16
Customer Service	6	7

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3. Do you always purchase your cleats at the same retailer?

Criterion	Tally	Percent (%)
Often	54	61
Always	28	31
Rarely	7	8

4. How many retailers do you visit before purchasing a pair of cleats?

Criterion	Tally	Percent (%)
One	64	72
Two	20	23
Three or more	4	5

5. What is the minimum price drop a retailer would have to undergo to switch from your usual retailer of choice?

Criterion	Tally	Percent (%)
16-25%	69	78
26-35%	16	18
6-15%	4	4